

September 1, 2003

Productivity Commission
LB2 Collins Street East
Melbourne, Vic, 3000

Dears Sirs/Madams

**Re: Inquiry on First Home Ownership Affordability
Submission two**

This submission should be read in conjunction with my submission dated 26 August 2003.

1. Why be concerned about Housing Affordability?

The Productivity Commission should determine the reasons why housing affordability is a concern to society and governments. Some reasons worth considering include:

- If housing costs are too high this may, over the long term, materially reduce household expenditures on other goods and services.
- Higher housing prices may contribute to excessive investment in housing and may divert capital (or increase the cost of capital) to the productive sectors.
- As housing loan commitments rise this may have social implications and costs. Birth rates may fall. People may work longer hours (including both adult members of a family with children), with possible implications for health, the amount and quality of time spent with family and family relationships. Higher housing loan commitments increase the chance of financial difficulties, loan default and bankruptcy. Higher housing loan commitments may reduce the ability to otherwise save for retirement.

Over the long term, higher housing costs may act to reduce governments' tax revenues and increase governments' expenditures (e.g. on retirement incomes, social welfare, family payments).

2. Housing values

In the previous submission, it was stated that smaller cities tend to have relatively low housing costs, compared to larger cities. Attractive new cities would encourage people to move from existing cities and could, in the process, help drive down urban land prices nationally. New and well planned cities may also provide economies in land subdivision, housing construction and infrastructure provision.

The following tables show the median price of houses by capital city and the extent that Australia's population is concentrated in just a few cities.

City (Statistical Division)	Population	Median Price (March 2003)
Sydney	3,997,321	\$460,000
Melbourne	3,366,542	\$347,000
Brisbane	1,627,535	\$265,000
Adelaide	1,072,535	\$201,000
Perth	1,339,993	\$202,600
Greater Hobart	191,169	\$165,000
Source: ABS 2001 Census and REIA		

It appears that the larger cities (e.g. Sydney) set trends in housing prices (and affordability). For example, rental yields tend to be higher in the smaller cities and towns. When price rise and yields fall in larger cities, some investors chase higher yields in smaller cities and towns. This, in turn, drives up prices in the smaller cities and towns.

City (Statistical Division)	Population	% of State Population	Cumulative Share of Australian Population
Sydney	3,997,321	62.7%	21.2%
Melbourne	3,366,542	72.2%	39.0%
Perth	1,339,993	72.4%	46.1%
Brisbane	1,627,535	44.5%	54.8%
Adelaide	1,072,535	73.1%	60.4%
Greater Hobart	191,169	41.9%	61.5%
Source: ABS Census (2001)			

The above data does not fully reflect the significance of the above cities. Commuters travel from outside these cities to work in these cities. Some large towns' local economies rely on the above cities.

The implications of the concentration of Australia's population in a few cities extend beyond housing affordability. Other implications include the effects on crime, pollution, traveling times, community disconnection and national security.

Yours faithfully

Nigel Fitzpatrick
Victoria